

Market Potential for U.S. Wheat in Iraq

Presented by

Lochiel Edwards

On Behalf of

**Wheat Export Trade Education Committee
National Association of Wheat Growers
U.S. Wheat Associates**

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Good Morning Chairman Goodlatte and Members of the Committee. My name is Lochiel Edwards and I farm on the prairies of Montana. My sister, brother, and children work together with myself to raise high quality wheat for domestic flour mills and for overseas export. I am currently President of the Montana Association of Wheat Growers.

Today I am representing the Wheat Export Trade Education Committee, the trade policy arm of the wheat industry; the National Association of Wheat Growers, the organization responsible for domestic policy and farm programs; and for U.S. Wheat Associates, the industry's foreign market development and promotion organization. I appreciate this opportunity to speak to you on where we now stand and what needs to be done to rebuild the Iraq wheat market.

Let me begin by highlighting two points that wheat producers in the United States take into account when looking at export opportunities around the world. First, 96 percent of the world's consumers live beyond our border. The four percent within the United States do not consume enough wheat to sustain a viable wheat industry.

Second, we consistently export nearly 50 percent of our total production. As you can imagine, our success or failure hinges on the ability of U.S. wheat to be exported around the world. Trade is a vital component for ensuring the financial viability of U.S. wheat farmers. Every market, regardless of size, is an important market.

As early as 1963, Iraq was an important customer of the United States wheat industry. There was a year in the 1970s when we had 100% market share. In the mid and late 1990s there were some exports to Iraq. However, in most years leading up to the 1991 Gulf War, we maintained about a third of the total annual Iraqi wheat import market at around 3 million tons per year. During the first Gulf War and the period following Iraq refused to make any purchase from the U.S. not only because of the war, but also, because of the unilateral sanctions we maintained against imports of their products. Regaining market share is difficult at any time. The challenges in a war torn country will no doubt add to the difficulties of regaining market share that has been displaced by our competitors.

We are very pleased that a new market-oriented Grain Board is up and running. Even with renewed ties from the past, it will be tough going for U.S. wheat to regain market share. We are going to need the assistance of the U.S. government.

I'd like to take a couple of minutes to explain some of the wheat industry's relatively recent history in Iraq, and then look to the immediate and long-term future.

During the 1980's, through eight long years of war between Iraq and Iran, Iraq was a high priority market for our industry and U.S. Wheat Associates' put a great deal of work into servicing this market. Dealing with the U.S. free market system was more difficult for Iraq than the government-to-government system they were able to use with the Canadian Wheat Board and the Australian Wheat Board.

While not able to sign long term purchase agreements with Iraq like our competitors could offer, the U.S. wheat industry signed a protocol with Iraq's State Organization for Grains (SOG), encompassing technical cooperation. The agreement provided for an in-depth comprehensive program of technical assistance, trade servicing and information, in return for SOG's agreement to give the U.S. wheat market consideration as a major source of supply in meeting Iraq's annual imports.

With the support and backing of the U.S. Department of Agriculture, we were able to offer several months of training to key officials of the SOG. Iraqi millers were trained in Kansas and many bakers were awarded scholarships to 19-week courses at the American Institute of Baking. They received assistance that allowed them to computerize their grain inventory system. Key Iraqi grain inspection officials received training at the North Dakota's Northern Crops Institute and key grain purchasers received training, with the financial support of USDA, in grain marketing.

By 1989/90, allocation of our market development funds for Iraq was three times more than funding for activities in Egypt, the region's largest wheat importer. This was done because the potential market in Iraq was growing quickly.

Unfortunately, with the escalation of the Iraq-Iran war Iraq's industry representatives were unable to attend any activities outside of Iraq. To meet this constraint between 1988 and 1990, U.S. Wheat Associates offered training in grain inspection, transportation, storage, milling and baking within the country. In 1990/91, political strains and eventual war halted all U.S. market development efforts.

Some U.S. hard red winter wheat went to Iraq for a couple of years in the mid 1990s, until May 1998, when Iraq's regime said it would refuse to grant contracts to companies in America. That was an abrupt end to a wheat marketing year that saw exports of 817,400 metric tons of U.S. wheat to Iraq.

With an opening of the market following the end of the Hussein regime, the U.S. wheat industry is working to renew friendships and pick up where we left off in offering all the assistance they need. We weren't -- and are not -- looking for special deals. In fact, we believe that any allegations of improper past arrangements should be fully investigated.

We strongly believe that Iraqis and Americans alike benefit from the development of an open and competitive marketplace where economics and specific end use needs -- rather than political

considerations -- determine what type of wheat is bought and from where. Open markets work, when given the chance. They work best when commercial buyers are free to choose their sources of supply and when suppliers compete fairly and transparently.

Unfortunately, we've faced many roadblocks on the road to normal trade relations. For nearly a year, despite the fact that our competitors were allowed into Iraq, our government prohibited us from travel into the Iraq. Finally, in February of 2004, almost a year after the war began, our market development experts were able to meet with Iraqi wheat buyers. The process of rebuilding friendships and providing assistance has begun.

The future for this market is positive. The Iraqis are enthusiastic about once again working with us. U.S. Wheat Associates was encouraged by a meeting with Iraq's Grain Board, Foodstuffs Trading Board and the Ministry of Trade that was held in Jordan this year. They clearly wanted to learn as much as they could about getting back into the U.S. marketing system. Our team in Iraq believes that they want a competitive purchasing system, and they want to have the U.S. as a supplier and competitor.

Iraq buyers have made a lot of progress in understanding wheat quality specifications, and we believe that it will only get better as the Iraqis become reacquainted with the U.S. marketing system and the role of the Federal Grain Inspection Service in providing for official certification of quality at loading. There have been roadblocks in recent attempts to bring Iraqi teams to the U.S. for training. One of these has been difficulty in getting visas issued in a timely fashion, even when the individuals were invited and sponsored by the U.S. government, and representatives from the government were to accompany the team. Efforts were made to bring a team to the U.S. in April for training, but the clearances could not be obtained. Belatedly, the visas were issued, and we are now trying to reschedule the trade mission.

Another problem is the lack of ability to extend USDA's credit program. Iraq's debt will need to be restructured so that the country can begin to recover without the overhang of an estimated \$150 billion.

As I stated in the beginning of this testimony, it will take a lot of effort to re-establish U.S. wheat in this previously closed market. Our industry will do all that we can. But we need the assistance of the U.S. Government in the following areas:

- (1) Work with the other countries in debt forgiveness and debt restructuring;
- (2) Allocation of GSM credits;
- (3) Expeditious approval of visas for approved Iraqis to visit the United States;
- (4) USG funding for market development activities and improvement in Iraq's port and grain handling facilities;
- (5) Travel authority to visit Iraq for market development activities;
- (6) The UN and other bodies are investigating alleged kickbacks of the previous Iraq regime. The U.S. government needs to firmly support that effort.

I am very pleased to be able to report that Iraq has purchased U.S. wheat this year. As the Iraqis regain their familiarity with the U.S. marketing system, and rediscover the unique qualities of U.S. wheat, we are confident of a brighter future. We look forward to a time in the near future when we once again control a strong share of this important market.